



Proceedings from the Fourth National Roundtable in Bulgaria

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Responsible partner: ECONOLER BULGARIA

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SUSTAINABLE ENERGY PROJECTS AT LOCAL LEVEL AS KEY FACTOR TO OVERCOME THE ENERGY AND ECONOMIC CRISIS

National roundtable for financing energy efficiency investments in
Bulgaria

26-27 September 2022

Starosel, Complex "Starosel" and online

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| <i>104 stakeholder representatives</i> | <i>13 speakers</i> |
| | <i>30 delegates</i> |
| | <i>61 participants on-line</i> |

Discussion topics:

- Financial institutions as key factors in the implementation of national programs
- The role of municipal energy management systems and standards for attracting market financing

Plenary session:

The national round table was opened by Mr. Dragomir Tzanev (EnEffect), welcoming the participants and introducing the agenda and purpose of the event - to inform the Bulgarian municipalities about the future funding programs and to add their feedback, which will be presented to the institutions that administer the programs.

Mr. Ivaylo Aleksiev followed up, presenting the achieved progress of the reforms under the National Recovery and Resilience Plan (NRRP) and deadlines for the implementation of the investment projects. He mentioned that the country has great experience in financing energy efficiency (EE) projects in various sectors of the economy. However, one of the big disadvantages of them is that the financing is periodic, which does not allow the sustainable development of the business. On the other hand, Mr. Aleksiev mentioned that Bulgaria has developed strategic documents with a long-term vision, and NRRP will make a great contribution to the realization of the set long-term goals. Its funding is expected to be committed and accounted for by 2026, which is also a relatively short time frame. The NRRP also includes a number of reforms that would support the financing of EE projects in the long term. He then added that there is no information about a delay, including for the National Decarbonization Fund (NDF) and results will be visible by the end of the year. Some of the reforms under NRRP require regulatory changes that need a functioning National Assembly. This is one of the risks that may delay the implementation of the reforms. Mr. Aleksiev stressed that many and high-quality projects are needed, which requires trained and experienced personnel throughout the projects' investment chain. To create this capacity, sustainable project financing is needed, which is a main object of the current roundtable. Mr. Aleksiev also commented that different stakeholder groups have different needs, which are addressed with a different approach. He concluded marking that for households self-participation is mandatory, which will attract private investments.

This was followed by a presentation by Ms. Magdalena Dimitrova, state expert, "Programming" department, Ministry of Environment and Water (MEW), who introduced the audience to the "Environment" Program 2021-2027 with a budget of over BGN 3.5 billion. She made a brief presentation of the budgets according to their distribution per priority. For the "Water" priority, the main investments will be made through grants, with a small percentage of financial instruments. Measures for the collection, removal and treatment of waste water, water supply and phased projects will be financed. For the 'Waste' priority again the main support will be grant. It will be financed mainly separate collection and recycling of biodegradable waste. There will be a new tool "Integrated Territorial Investments", systems and centers for separate collection and preparation for reuse and repair. Support under the priorities "Biological diversity" and "Risk and climate change" will also be grants. Priority "Air" is key for the program, with domestic heating still the biggest air polluter, therefore the measure to replace solid fuel heating devices with ecological alternatives will continue. Ms. Dimitrova shared that they have developed minimum technical requirements for the new heating devices, as they can be all types of heat pumps, reconnection to the CHP, pellet fireplaces and boilers. Ms. Dimitrova added that so far they have renewed 5,000 appliances, for the next period they need

to replace the appliances in 87,000 households. She added that every year 12,000 people in Bulgaria die prematurely from poor air quality. She emphasized that the communication campaign for the citizens of the beneficiary municipalities is extremely important.

Mr. Dragomir Tzanev presented "Possibilities and conditions for financing municipal projects for energy efficiency", outlining the framework of the national policy for EE and indicated the main measures in the Plan in the field of energy and climate with time periods, as well as the goals according to the LTRS. He emphasized that the goals of the latter imply 80% savings in final energy, which requires a large financial resource, which cannot be provided by public funds solely. Mr. Tzanev also added that the funds under the NRRP are expected to be used to support building renovation policies. He mentioned that the relationship of the various policies need to be discussed. In turn, policies require a series of reforms that should facilitate the implementation of the various programs under the NRRP, and then presented the progress so far on each of the reforms. Regarding the NDF, the consultation by the EIB ends, but there is nothing published, and the term set for the operation of this instrument is 2024. There is a public discussion of the changes in the Law on Condominium Development which goes in the right direction - the decision-making and possible collective lending will be facilitated, but the mechanism of control and sanctions is insufficient. About the definition of energy poverty, there is a general consensus, however discussions are needed around the technical details, as there are still no guidelines on the mechanism of enforcement of the definition of energy poverty. On the other hand, a mechanism for financing projects through the energy bills, and the development of the one-stop shop reform were not discussed. Mr. Tzanev continued with the goals laid down in the NRRP for the renovation of public buildings and the allocation of the budget according to the type of municipality and the type of buildings. He introduced the audience to the minimum and maximum funding thresholds. The presentation ended with a list of issues raised by the NRRP.

Ms. Tanya Hristova, mayor of Gabrovo municipality and chairman of OMEE EcoEnergy spoke about the expectations and investment needs of local authorities. She began by saying that the last few years are lost in implementing our policy related towards improving people's health, and making people happier, more satisfied, and motivated. What Ms. Hristova mentioned is that the schemes expected by the Bulgarian municipalities are not based on quality and standard, which had to serve as a model, but they set limits and account a quantitative indicator. The financial resource under the NPPR cannot be sufficient to solve all the existing problems. According to Ms. Hristova, what we should apply in the different levels of the organization is to be partners and to work together with all interested parties. At this stage, the state does not recognize the municipality as its partner, which distances the municipality from the citizens. Ms. Hristova mentioned that more systematically applied solutions and opportunities that will allow us to achieve the set goals are needed, otherwise, everyone will implement a project that will be deprived of the opportunity to complement another initiative. She gave an example of the planned funds for cultural and sports infrastructure, which in many cases will be insufficient for a complete renovation of the buildings, and the possibility of an additional resource at this time is not permissible. It would be good if these NRRP funds were directed to public buildings, and cultural and sports infrastructure renovations should remain in integrated development plans or other programs

that concern small municipalities. When stepping forward to EE of a building, it is necessary to take into account all mandatory technical and technological conditions in order to avoid possible disappointment of people or non-fulfilment of goals. It would be good to put the quality of the microclimate as the main goal with a certain set of technical solutions. Ms. Hristova concluded with appeal to state to recognize the municipalities as a key partner.

Key quotes from plenary session:

„In order to move in the direction of fulfilling the EE goals and large-scale renovation of the building stock, which are becoming more and more ambitious, many and well prepared projects are needed to be qualitatively implemented. This requires trained, qualified and experienced staff along the entire project chain. Sustainable project financing is needed to create this capacity.“

Ivaylo Aleksiev, Sustainable Energy Development Agency (SEDA)

„Bulgarian municipalities should be recognized as a key partner that can always provide reasonable, workable and effective solutions that certainly protect and represent the interests of citizens.“

Tanya Hristova, Gabrovo municipality and OMEE EcoEnergy

Discussions and conclusions from the parallel sessions:

Parallel session 1: Financial institutions as key factors in the implementation of national programs

Moderated by Dragomir Tzanev

The session was opened by Mr. Dragomir Tzanev (EnEffect), who after a short introductory speech gave the floor to the speakers. The first in the program was Mr. Marko Markov (Econoler), who introduced the audience to the way of work of the expert groups for the BeSmart project and the results achieved so far by Expert Group 2 (Financial mechanisms and instruments promoting the development of the market of EE services and renewable energy (RE) sources. Integration with the National Decarbonization Fund (NDF) and other enabling financial platforms). The basis of the presentation was the policy proposal prepared by the Expert Group - Creation of a working segment to the NDF with the capacity to interact with innovative models for the implementation of EE/RES projects of the ESCO type. Mr. Markov explained that the proposal of the expert group is aimed at creating a favorable environment for the development of innovative business models for the financing and implementation of EE and RES projects. The future National Decarbonization Fund (NDF - still in the process of structuring) can play an important role in the development of this market. A mandatory prerequisite for this is that the planned grant schemes and subsidies be competently programmed, without creating prerequisites for competition with market mechanisms and/or financial instruments. The NDF should "mix" grant and market funds and provide "blended" financial instruments to market participants. At a minimum, the NDF can further improve support for innovative business models (including ESCOs), such as:

- Offers preferential discount rates for the redemption of receivables under ESCO contracts;
- Accepts energy savings, i.e. energy supply costs saved, such as primary security instead of land, mortgage and other;
- Allows longer credit terms, for example 15-20 years, in order to minimize the contributions from the beneficiaries and make the loan resource more accessible;
- Insures the receivables of ESCO companies, ensuring protection of their cash flows in case of missed payments from their customers.

Ms. Nadya Dankinova (FLAG Fund) continued the session by providing information about the new initiatives of FLAG aimed at supporting investments in sustainable energy. The fund is about to launch a new (second) platform for "green" investments in the public sector in partnership with the EIB. The platform will provide long-term financial instruments at low interest rates and without requirements for collateral - solely based on achieved savings. Mr. Lyubomir Tsarov (FLAG) added that thanks to a new start-up project under the LIFE program,

the Fund will be able to supplement the financial support with free technical assistance for the final beneficiaries. The technical assistance will allow free technical and financial structuring of the projects that will be financed through the "green" investment platform. Technical assistance will be provided for projects aimed at increasing EE in public buildings (with possible integration of RES for own needs), construction of RES capacities owned and managed by local self-government bodies, as well as projects for using geothermal potential for energy production. Investments that received technical assistance under the LIFE program project will be able to be financed through the FLAG investment platform.

Ms. Dankinova stated that the investment platform and complementary technical assistance will be fully operational within 2-3 months and the service will be promoted through all communication channels, including future roundtables and forums of the BeSmart project. The investment platform will also support projects that have not been able to be financed under the NRRP or EU programs.

Ms. Galya Vasileva (Bulgarian Energy Efficiency and Renewable Sources Fund - EERSF) confirmed the readiness of the institution she represents to finance both EE projects and those related to the production of energy from RES for own consumption in both the public and private sectors. She gave several examples of successfully implemented RES projects for own needs that received financing from EERSF. Ms. Vasileva also added that EERSF works continuously, not on a campaign basis, and is always open to its customers. As an advantage of the products offered by the Fund, Ms. Vasileva pointed out the possibility of applying a fixed interest rate for the entire financing period, which in today's uncertain conditions of the money markets provides additional security to EERSF's customers.

Ms. Dochka Vasileva (Fund of Funds) informed the attendees that the mixing of market and grant funding will become more and more common and in the new program period some of the EU programs will offer such a "blended" approach - a financial instrument and a grant in one operation. FF intends to structure similar products in the near future.

The main conclusions made at the end of the session were as follows:

- With the increasingly wide range of instruments blending grants with market funding, the 100% grant approach soon will be in the past.
- The market for financial instruments targeting EE and RES for both the public and private sectors is developing well and financial institutions are adding innovative approaches to meet the needs of their clients.
- More and more project owners (again from the public and private sectors) prefer to turn to the flexible terms of financial instruments as a source of funding rather than waiting for uncertain grant schemes. In the current conditions of energy crisis and highly volatile prices of energy sources, investments in RES and EE are becoming more and more financially attractive.

Parallel session 2: The role of municipal energy management systems and standards for attracting market financing

Moderated by Stanislav Andreev

The session was opened by Mr. Stanislav Andreev with a brief statement of the main objective of the upcoming discussion, namely outlining the connections between the competent management of energy consumption in municipalities and the ability to attract a quality financial resource. Mr. Andreev continued with a short presentation on Energy Management (EM), emphasizing several key points in structuring EE/RES projects: (i) planning phase, (ii) data collection phase, which is greatly facilitated from the presence of an EM system, (iii) financing phase (loans, ESCO scheme, European financing, etc.), (iv) contractor selection phase through public procurement, (v) implementation phase, (vi) savings certification phase. It was mentioned that the second phase is key, when the analysis of the data from the EM system helps to prioritize the project over others, as well as being an argument applying for financing.

Mr. Andreev concluded that EM systems are a quick investment that pays off over time, which helps municipalities to define quality projects, which in turn attract easy financing from banks and specialized funds.

Mr. Tsekov from the National Eco Trust Fund (NETF) presented a brief background on the fund's financing mechanisms and his observations on EM systems. He emphasized the fact that EM contributes to greater transparency of projects, generating clear analyzes that are of interest to financial experts from banks and specialized funds. In this sense, the NETF has included a requirement for an EM system in its operational manual for funding applications.

Regarding his experience with ESCO companies, Mr. Tsekov added that the availability of data and analysis from EM systems helps to prepare optimal and precise technical offers.

Mr. Tsekov talked about a number of projects in which NETF participates and where EM could be used: (i) Investment Confident Project (ICP) – a project that provides protocols to be followed at each phase of the project depending on its type, inclusively for the stage of measurement and verification of the achieved savings, (ii) increasing the capacity of the municipal administration in the use of EM systems.

After Mr. Tsekov, the floor was given to Ms. Nadia Nikolava-Deme from SOFENA. She shared that EM systems are laid out as a solution in the Law on Territorial Planning, the Law on Energy Efficiency and the Law on Preschool and School Education. She presented sample reports of EM activities from several schools and kindergartens, and then made a brief analysis of the data presented.

Ms. Nikolova-Deme presented data on the savings that can be generated by implementing EM and concluded that a systematic approach, as provided by ISO 50001, achieves the best results.

In the last part of the discussion, the floor was given to Mr. Kiril Raichev from the Alliance for Energy Efficiency. Mr. Raichev presented the ESCO companies' point of view regarding EM systems. First of all, he noted that in the Law on Energy Efficiency ESCO contracts are strictly regulated and are expected to include a mechanism for measuring and verifying the energy savings achieved. In this sense, the subject of EM is a must for these companies.

Mr. Raichev emphasized Mr. Tsekov's statement that the availability of energy consumption/EM data helps to prepare optimal technical proposals. In addition, the very presence of an EM system is indicative of the quality of the customer – they have a relationship with energy consumption, also they have invested in controlling and optimizing this consumption, which automatically makes them a lower-risk and desirable partner to work with.

Last but not least, Mr. Raichev drew attention to the possibility for municipalities to prepare quality and compatible pools of projects (the renovation of several technically compatible buildings to be grouped in one project) with the help of EM systems and to make a choice of ESCO contractor through the competitive dialogue mechanism according to the Law on Public Procurement.

At key moments of the discussion, the floor was given to Mr. Todor Popov, director of the "Administrative, Legal, and Information Service" Directorate of Gabrovo municipality. Mr. Popov presented the perspective of the municipality regarding EM systems. He drew attention to the need to build capacity in the municipal administration regarding EM, as well as to the benefits of partnering with the expert community in the selection and implementation of EE/RES projects.

The main conclusions made at the end of the session were the following:

- EM systems help in qualitative prioritization and grouping (aggregation) of renovation projects by municipal administrations, which are preferred by ESCO companies and financing institutions;
- The analyzes generated by the EM systems provide another level of argumentation to the financing institutions for the need to implement the EE/RES projects presented for financing;
- The savings generated by EM pay off the installed systems in a short period of time and can provide a salary for professional experts;
- Innovative services and solutions are selected through the competitive dialogue mechanism regulated in the Law on Public Procurement.

Closing session – Lessons learned and upcoming activities

Moderated by Dragomir Tzanev

The second day of the event started with a presentation on the Energy Efficiency Priorities and the Evolution of Energy Communities in Greece by Alice Korovesi, INZEB. She mentioned that the Greek government gives 1 billion euros per month to subsidize the electricity bills of

citizens and businesses, which can be seen as an opportunity to rethink the application of EE and RES solutions. Ms. Korovesi introduced the audience to the Greek priorities for financing EE, starting with the renovation of residential buildings. In Greece, they have a very successful program that started 8 years ago. From 2020, they have a goal for renovating 600,000 buildings, with a priority on low-income households. The buildings in the public sector are being renovated under the Electra program, which operated before and started again a few days ago, with a budget of 640 million EUR and the goal of the renovated buildings reaching category B. A program for renovation of the buildings used by Small and Medium Enterprises with a budget of 540 million EUR will be launched very soon. According to Ms. Korovesi the Greek NRRP is well structured. They have a budget of 30.5 billion EUR, out of which 88.7% will be spend on the renovation of the building stock. She also presented results of discussions with stakeholders of the SMAFIN program in which 4 countries are participating. She outlined the following important conclusions for the residential sector: banks seek support from other organizations when evaluating investment, also one-stop shop model can be a useful tool for boosting private capital. As for the public sector, the main conclusions were that ESCO companies should participate in the renovations, but the model for one reason or another does not work, a big difficulty is the lack of data, the grouping of projects is difficult, too, due to various administrative and regulatory reasons, also the cost-benefit analysis should include all benefits. Ms. Korovesi continued with the topic of energy cooperatives. In Greece, 1,258 cooperatives have been established since 2018, operating 879 projects with a capacity of 613 MW. There is a huge interest, although there are large companies that take advantage of the law and establish cooperatives instead of energy production companies. Ms. Korovesi mentioned that electrification rates are low due to bureaucratic issues. She also mentioned one of the goals according to the European Solar Strategy: the EU and the member states should work towards the creation of at least one energy cooperative in every municipality with a size of over 10,000 people by 2025.

Mr. Jiri Karasek, SEVEN, spoke about "National Roundtables in CZ and SK and further development of ESCO market and EPC". The presentation started with information about round tables in the Czech Republic and Slovakia, mentioning their structure, the strategy for forming discussion topics, participants, and results so far. The roundtables work towards sustainable financing and improving the efficiency of financial instruments, creating a unified methodology for reporting ESG in the construction sector, supporting the implementation of EPC, supporting municipalities and specifically in the development of their sustainable development plans. Mr. Karasek commented that the ESCO market in the Czech Republic is working very well. He presented a brief statistic: from 1994 until now - 1,274 buildings have been renovated as part of 275 projects under EPC, and their redemption period is between 5 and 10 years, with a maximum of 12 years. Two commercial banks work together with ESCO companies. At the moment, building renovation is financed through the subsidies, and the technologies through EPC. Mr. Karasek said that through the roundtables they are trying to change the financing under the EPC, which should not be part of the public debt of a municipality. Another focus is a new method of Performance Design and Build, as well as the sale of future receivables from the EPCs. Mr. Karasek concluded with two examples of public buildings renovated through EPCs.

The program ended with a summary of the discussions and the conclusions made from the parallel sessions, supplemented by comments from the experts present.

Ms. Teodora Stanisheva presented the conclusions of one of the parallel session about "The role of municipal energy management systems and standards for attracting market financing". The main conclusion is that the benefits of implementing EM systems exceeds the necessary resources for their implementation. This was also confirmed by the representatives of the financing organizations, for which it is necessary to prove that the projects they finance reach the set goals. On the other hand, it is important for ESCO companies to reduce the risk when implementing EE projects, and one of their priorities is to be able to group projects. EM systems can assist ESCO companies in preparing more reliable and accurate technical offers. Ms. Stanisheva added that in order for municipalities to have access to innovative ESCO companies, their capacity must be developed and they must be technically assisted. Also communication with end users and users of buildings where EE solutions are implemented is of key importance. A resource is needed for communication activities to disseminate all the benefits of building renovation and sustainable projects, as well as the operation of the buildings afterwards, which will ensure the full effect of the implemented measures.

Mr. Kiril Raichev added that the ESCO process can be regulated in Bulgaria, similar to the developed countries. He mentioned that we need to take a step forward to go to a higher level in the implementation of EE, referring to procedures of the type of competitive dialogue, where the concepts and innovation of solutions are contested and not the Quantitative-value accounts. Mr. Raichev established a relationship with the Czech Republic, where ESCO companies offer solutions linked to subsidies, but in Bulgaria this is divided - companies must compete with a free financial resource. In most cases, the municipality prefers the free resource instead of sustainable EE solutions with a guaranteed result, for which payment is required. If the two solutions are combined, we will be able to show more projects.

Mr. Todor Popov commented on the issue of the internal capacity of the municipalities, necessary to make the connection between EM, monitoring, proving the results and spreading good practices, with the aim of implementing them in other projects. According to him, it is important people from different fields to be with delegated rights to unite or request information. It is necessary to designate such persons to carry out this function. This is difficult for large municipalities with a large structure. EE covers many areas of activity of any organization, therefore it is important that all activities are linked. For this reason, it is important to have a person who brings together the various units and experts. There must be an internal organization in which each unit has basic information about EE. Mr. Popov also mentioned that green public procurement soon will lay in the past as EPC become much more sophisticated and already offer a service.

Mr. Dragomir Tzanev summarized that the topic of municipal energy managers has been discussed for many years, and already at the beginning internal coordination and work with citizens was set and it must continue, together with key competences in different sectors, to allow effective communication. The development of this capacity is key to the implementation of national policies, which in turn are implemented at the local level.

Mr. Dragomir Tzanev outlined the conclusions of the other parallel session on the topic "Financial institutions as key factors in the implementation of national programs". The session discussed the philosophy of EE financing and how current practices should be reformed in order to attract more market investments and use energy savings as the main source of financial flow. Mr. Tzanev confirmed that this approach was supported by all financial institutions with real examples. He mentioned that for private banks, the topic of municipal financing is not of primary interest, there is no certainty due to the national policy of 100% grants. Also, public financial institutions agree on the development of the financial system, which should cover the following: energy savings as the main source of collateral, long credit terms, preferences in interest rates, a good risk-sharing mechanism and the application of various guarantees and insurance approaches, as well as technical assistance. The financial institutions presented at the parallel session have confirmed that they apply these reliefs to their financial instruments. The NDF will also offer a technical assistance component. This change in funding policies is also observed at the central level. Mr. Tzanev's summary ended with the fact that it is important for the private and municipal sectors to accelerate the process of renovation of buildings, as well as investments in energy production, in order to be able to achieve the set goals and get out of the energy crisis.

Ms. Dochka Vasileva confirmed that the state is taking a step in the right direction to move forward with reforms. She mentioned the creation of the NDF, the use of financial instruments and the reduction of grants. She also confirmed that technical assistance is extremely important for the preparation of the projects.

Mr. Marko Markov mentioned that he was most impressed by the fact that the existing financial institutions, without the intervention of the state, are going in the right direction. He gave an example of a second session of the Flag Fund platform with the EIB, which is being prepared and will be supplemented with a component of targeted technical assistance under the LIFE programme. This will increase competition as well as the quality of services. Additionally, market participants will get another sufficiently flexible source of financing.

The national round table on the topic "Sustainable energy projects at the municipal level as the main factor for dealing with energy crises" concluded with closing remarks by Mr. Dragomir Tzanev. He emphasized that the information provided gives additional orientation to the processes and could lead expectations and preparations for the next funding programs in the right direction. He then announced the date of the next round table - November 29-30, which will be organized together with the Association of Bulgarian Energy Agencies, covering various topics in EE in the industry and SMEs.